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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. [redacted] 11

ALMA MOTOR COMPANY,
Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

BRIEF OF AMICI CURIAE

JAMES D. CARPENTER, JR.,
75 Montgomery Street,
Jersey City 2, N. J.,
JOHN G. BUCHANAN,
1025 Union Trust Bldg.,
Pittsburgh 19, Pa.,
Amici Curiae.

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IN THE

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OCTOBER TERM, 1944

NO. 806

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Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

BRIEF OF AMICI CURIAE

This brief is filed on behalf of Roscoe A. Coffman, who in 1932 gave to Federal Laboratories, Inc., an exclusive license under a United States patent dated September 16, 1930, and certain patent applications to make, use and sell starters for internal combustion motors and shells to start the same, for which the licensee agreed to pay a royalty equal to 6% of the net selling price. In December, 1943, the War Department and the Navy Department issued Royalty Adjustment Orders directing Federal Laboratories, Inc., and Breeze Corporations, Inc. (its exclusive sales agent) to pay over to the Treasurer of the United States the balance of all royalties specified in the license on account of manufacture, use,

sale or other disposition of the inventions for the War Department and the Navy Department which had theretofore occurred or should thereafter occur while Sections 1 and 2 of the Royalty Adjustment Act remain in force, in excess of $8 upon each starter sold to or for either department and no royalties upon parts and cartridges sold to or for either department, and not to exceed $50,000 to be paid to Coffman in each calendar year commencing January 1, 1943. These orders are substantially to the same effect as the order involved in the case at bar (R. 93), except for the fact that only a part of the royalties on War Department and Navy Department work under Coffman's contract is taken from him, instead of all the royalties as in the case at bar.

Coffman sued Federal Laboratories, Inc., and Breeze Corporations, Inc., in the District Court for the Western District of Pennsylvania for an accounting of the royalties due him under the terms of the license agreement, an injunction against paying over the royalties to the Treasurer of the United States and judgment for $371,625.96, which he charged was due under the contract, with interest. The United States of America was granted leave to intervene to support the constitutionality and validity of the Royalty Adjustment Act and of the Royalty Adjustment Orders. The case came before this Court at the present term at No. 485. The Court held that Coffman had shown no ground for an injunction, but since Federal Laboratories, Inc., had set up as a defense the Royalty Adjustment Orders prohibiting payment of the royalties to him, he would be free upon that issue to contest the constitutional validity of the orders: *Coffman v. Federal Laboratories, Inc., et al.,*

65 S. Ct. 303, at p. 304. The action is to be tried in the District Court as soon as its calendar permits.

It is our contention that the Act of October 31, 1942, c. 634, 56 Stat. 1013, 35 U. S. C. §§ 89-96, known as the Royalty Adjustment Act, and the War and Navy Department Orders involved in the case at bar and similar cases contravene the Fifth Amendment to the Constitution.

In the briefs of the Government in the case at bar and similar cases it is argued that the Royalty Adjustment Act is sustainable as a proper exercise of the war and patent powers and the power of eminent domain.

The power of eminent domain is an incidental, not an independent, power. It is given to Congress by Art. I, Sec. 8, cl. 18, of the Constitution and may be exercised only when it is necessary and proper to carry into execution one or more of the powers given by the other seventeen clauses of that section. The contention of the Government, therefore, is reduced to the proposition that the Act is sustainable as an exercise of the war and patent powers.

It is obvious that the taking of royalties due under a license contract cannot be justified under the patent power. The Act applies to inventions, "whether patented or unpatented" (Section 1). It deals with all license contracts relating to such inventions, not merely licenses under patents. Moreover, the patent power is a power "to promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their respective * * * Discoveries" (Constitution, Art. I, Sec. 8, cl. 8). Clearly the effect of the Royalty Adjustment Act is not to secure to an inventor the exclusive right to his discovery. Its

effect is to render that right insecure by reducing its value or destroying it, as has been attempted in the case at bar. The contention of the Government, therefore, is reduced to the proposition that the Act is sustainable as an exercise of the war power.

The war power is subject to the restrictions of the Fifth Amendment to the Constitution. There has been no doubt about the applicability of these restrictions to the exercise of the war power since the decision in *Ex parte Milligan*, 4 Wall. 2, where the Court, referring to the Fourth, Fifth and Sixth Amendments, said by Mr. Justice Davis (pp. 120-121):

> "The Constitution of the United States is a law for rulers and people, equally in war and in peace, and covers with the shield of its protection all classes of men, at all times, and under all circumstances. No doctrine, involving more pernicious consequences, was ever invented by the wit of man than that any of its provisions can be suspended during any of the great exigencies of government. Such a doctrine leads directly to anarchy or despotism, but the theory of necessity on which it is based is false; for the government, within the Constitution, has all the powers granted to it, which are necessary to preserve its existence; as has been happily proved by the result of the great effort to throw off its just authority."

See also *United States v. Russell*, 13 Wall. 623, by Mr. Justice Clifford, at pp. 627-628; *United States v. Lee*, 106 U. S. 196, by Mr. Justice Miller, at p. 218; *Hamilton v. Kentucky Distilleries Co.*, 251 U. S. 146, by Mr. Justice Brandeis, at p. 155; *United States v. Cohen Grocery Co.*, 255 U. S. 81, by Mr. Chief Justice White, at pp. 88-89;

United States v. New River Collieries Co., 262 U. S. 341, by Mr. Justice Butler, at p. 343; *Highland v. Russell Car, etc., Co.*, 279 U. S. 253, by the same learned judge, at pp. 261-262; *Home Building & Loan Ass'n v. Blaisdell*, 290 U. S. 398, by Mr. Chief Justice Hughes, at p. 426; concurring opinion of Mr. Justice Murphy in *Hirabayashi v. United States*, 320 U. S. 81, at p. 110.

But if there is another power than the war power under which an attempt may be made to justify the Royalty Adjustment Act, the Act must nevertheless meet the requirements of the Fifth Amendment. All the powers of Congress are subject to its restrictions. *Monongahela Navigation Co. v. United States*, 148 U. S. 312, by Mr. Justice Brewer, at p. 336; *United States v. Lynah*, 188 U. S. 445, by the same learned judge, at p. 465; *United States v. Cress*, 243 U. S. 316, by Mr. Justice Pitney, at p. 320.

We submit that the Fifth Amendment invalidates the Royalty Adjustment Act and the orders of the War and Navy Departments made thereunder, because (a) they take private property without just compensation and (b) they deprive persons of property without due process of law.

(A) THE ROYALTY ADJUSTMENT ACT AND THE ORDERS MADE THEREUNDER TAKE PRIVATE PROPERTY WITHOUT JUST COMPENSATION.

The rights of a patentee are property. The fact that they are derived from an act of the Government does not deprive them of any of the protection from further acts of the Government to which any other prop-

erty is entitled. The right to exclude others from the use of an invention under a patent from the United States is a right of the same kind as a right to exclude others from the use of land held under a patent from a State or from the United States. The law has been settled to this effect for more than six decades. Mr. Justice Bradley, delivering the opinion of the Court in *James v. Campbell,* 104 U. S. 356, said (pp. 357-358):

> "That the government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser, we have no doubt. The Constitution gives to Congress power 'to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,' which could not be effected if the government had a reserved right to publish such writings or to use such inventions without the consent of the owner. Many inventions relate to subjects which can only be properly used by the government, such as explosive shells, rams, and submarine batteries to be attached to armed vessels. If it could use such inventions without compensation, the inventors could get no return at all for their discoveries and experiments. It has been the general practice, when inventions have been made which are desirable for government use, either for the government to purchase them from the inventors, and use them as secrets of the

proper department; or, if a patent is granted, to pay the patentee a fair compensation for their use. The United States has no such prerogative as that which is claimed by the sovereigns of England, by which it can reserve to itself, either expressly or by implication, a superior dominion and use in that which it grants by letters-patent to those who entitle themselves to such grants.* The government of the United States, as well as the citizen, is subject to the Constitution; and when it grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor."

To a like effect see *United States v. Burns*, 12 Wall. 246, by Mr. Justice Field, at p. 252; *Cammeyer v. Newton*, 94 U. S. 225, by Mr. Justice Clifford, at pp. 234-235; *Hollister v. Benedict & Burnham Mfg. Co.*, 113 U. S. 59, by Mr. Justice Matthews, at p. 67; *United States v. Palmer*, 128 U. S. 262, by Mr. Justice Bradley, at p. 271; *Solomons v. United States*, 137 U. S. 342, by Mr. Justice Brewer, at p. 346; *Gill v. United States*, 160 U. S. 426, by Mr. Justice Brown, at p. 435; *Belknap v. Schild*, 161 U. S. 10, by Mr. Justice Gray, at p. 16; *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, by Mr. Justice Brown, at pp. 608-609; *Wm. Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co.*, 246 U. S. 28, by Mr. Chief Justice White, at pp. 39-40; *United States v. Dubilier Condenser Corp.*, 289 U. S. 178, by Mr. Justice Roberts, at p. 187; *Hartford-Empire Co. v. United States*, 65 S. Ct. 373, in which the

* The Crown has surrendered this prerogative: *9 & 10 Geo. V*, c. 80, § 8.

Court at the present term said by Mr. Justice Roberts (65 S. Ct. 387):

> "That a patent is property, protected against appropriation both by individuals and government, has long been settled."

It is obvious that contract rights of licensors to royalties have been taken by the orders of the War Department and Navy Department under the Royalty Adjustment Act. In the case of the petitioner all such royalties under its contract with The Timken-Detroit Axle Company, in the case of Coffman the greater part of such royalties under his contract with Federal Laboratories, Inc., are to be received by the United States and not by the persons entitled thereto under the license contracts. There is a forced assignment to or appropriation by the United States of contract rights to receive money.

Contract rights are property protected by the Fifth Amendment. This Court said in *Lynch v. United States*, 292 U. S. 571, by Mr. Justice Brandeis (p. 579):

> "Valid contracts are property, whether the obligor be a private individual, a municipality, a State or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment."

See also *Long Island Water Supply Co. v. Brooklyn*, 166 U. S. 685, by Mr. Justice Brewer, at p. 690; *Brooks-Scanlon Corp. v. United States*, 265 U. S. 106, by Mr. Justice Butler; *Russian Volunteer Fleet v. United States*, 282 U. S. 481, by Mr. Chief Justice Hughes.

The purpose and effect of the Royalty Adjustment Act is to adjust, *i. e.*, to reduce, royalties for the use of

inventions when they are used for the United States by licensees, regardless of contract rights thereto, where the rates or amounts are believed to be unreasonable or excessive by the head of a department or agency of the Government or his delegate. When such a department head or delegate believes that the amounts of royalties are unreasonable or excessive he is to take into account in adjusting the royalties not the terms of the contract but "the conditions of wartime production" (Sec. 1). The licensor is permitted to sue the United States not for the value of the contract right taken from him, but for "such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation * * *, taking into account the conditions of wartime production" (Sec. 2); and the United States may defend the suit by pleading defenses that might be pleaded by a defendant in an action for infringement, which, as we shall show, a licensee could not do. In short, the statute is designed, and if valid is effective, to turn over to the United States a part or all of the royalties to which licensors are entitled under their contracts.

But under all the authorities, when a contract right is taken from a person for the benefit of the Treasury of the United States he is entitled to the full and perfect equivalent in money of the property so taken. The full and perfect equivalent in money is of course the amount which could be obtained for an assignment of the contract right by an owner willing to sell it from a purchaser willing to buy it. The right to receive money from a solvent debtor is worth the amount of money to be received under it. The Royalty Adjustment Act, providing for the payment of a less amount, fails to satisfy

the requirement of just compensation imposed by the Fifth Amendment. The United States cannot constitutionally take any part of the amount to which a person is entitled under his contract and not pay for it.

The principle upon which we rely was laid down by this Court as long ago as 1878, when, in *Boom Co. v. Patterson,* 98 U. S. 403, the Court said by Mr. Justice Field (pp. 407-408):

> "In determining the value of land appropriated for public purposes, the same considerations are to be regarded as in a sale of property between private parties. The inquiry in such cases must be what is the property worth in the market, viewed not merely with reference to the uses to which it is at the time applied, but with reference to the uses to which it is plainly adapted; that is to say, what is it worth from its availability for valuable uses."

The leading case under the just compensation clause is doubtless *Monongahela Navigation Co. v. United States,* 148 U. S. 312. An Act of Congress authorized the Secretary of War to institute proceedings for the condemnation of a lock and dam of the appellant. The court found that the value of the lock and dam was $209,000, not considering the franchise of the appellant to collect tolls, and decreed that that sum be paid for the property condemned. On appeal this Court held that just compensation required payment of the value of the franchise to take tolls as well as the value of the tangible property and that the assertion by Congress of its purpose to take the property did not destroy the State franchise, and remanded the case for a new trial. Mr. Justice Brewer, delivering the opinion of the Court, said (pp. 325-326):

"The language used in the Fifth Amendment in respect to this matter is happily chosen. The entire amendment is a series of negations, denials of right or power in the government, the last, the one in point here, being, 'Nor shall private property be taken for public use without just compensation.' The noun 'compensation,' standing by itself, carries the idea of an equivalent. Thus we speak of damages by way of compensation, or compensatory damages, as distinguished from punitive or exemplary damages, the former being the equivalent for the injury done, and the latter imposed by way of punishment. So that if the adjective 'just' had been omitted, and the provision was simply that property should not be taken without compensation, the natural import of the language would be that the compensation should be the equivalent of the property. And this is made emphatic by the adjective 'just.' There can, in view of the combination of those two words, be no doubt that the compensation must be a full and perfect equivalent for the property taken."

And again (p. 327):

"By this legislation, Congress seems to have assumed the right to determine what shall be the measure of compensation. But this is a judicial and not a legislative question. The legislature may determine what private property is needed for public purposes—that is a question of a political and legislative character; but when the taking has been ordered, then the question of compensation is judicial. It does not rest with the public, taking the property, through Congress or the legislature, its

representative, to say what compensation shall be paid, or even what shall be the rule of compensation. The Constitution has declared that just compensation shall be paid, and the ascertainment of that is a judicial inquiry. In *Charles River Bridge v. Warren Bridge,* 11 Pet. 420, 571, Mr. Justice McLean in his opinion, referring to a provision for compensation found in the charter of the Warren bridge, uses this language: 'They (the legislature) provide that the new company shall pay annually to the college, in behalf of the old one, one hundred pounds. By this provision, it appears that the legislature has undertaken to do what a jury of the country only could constitutionally do: assess the amount of compensation to which the complainants are entitled.' "

The language of the Court with reference to the right to take tolls is peculiarly applicable to the case at bar and the case of our client in view of the fact that the orders here in question give to the Treasurer of the United States royalties which the licensees are required by their contracts to pay to the petitioner and to Coffman. It is as follows (pp. 337-338):

"And here it may be noticed that, after taking this property, the government will have the right to exact the same tolls the Navigation Company has been receiving. It would seem strange that if by asserting its right to take the property, the government could strip it largely of its value, destroying all that value which comes from the receipt of tolls, and, having taken the property at this reduced valuation, immediately possess and enjoy all the profits from the collection of the same tolls. In

other words, by the contention this element of value exists before and after the taking, and disappears only during the very moment and process of taking. Surely, reasoning which leads to such a result must have some vice, at least the vice of injustice."

And again (p. 343):

"It is also suggested that the government does not take this franchise; that it does not need any authority from the State for the exaction of tolls, if it desires to exact them; that it only appropriates the tangible property, and then either makes the use of it free to all, or exacts such tolls as it sees fit, or transfers the property to a new corporation of its own creation, with such a franchise to take tolls as it chooses to give. But this franchise goes with the property; and the Navigation Company, which owned it, is deprived of it. The government takes it away from the company, whatever use it may make of it; and the question of just compensation is not determined by the value to the government which takes, but the value to the individual from whom the property is taken; and when by the taking of the tangible property the owner is actually deprived of the franchise to collect tolls, just compensation requires payment, not merely of the value of the tangible property itself, but also of that of the franchise of which he is deprived."

So just compensation requires payment of the value of the royalties of which licensors have been deprived. If this Court had decided no other case than the *Monongahela Navigation Company* case the fallacy of the defense of the Royalty Adjustment Act would be amply

demonstrated. But there are many more cases to reinforce the conclusion.

In *United States v. Rogers,* 255 U. S. 163, it was argued that there was error in awarding the owners of appropriated lands interest on their value from the time of actual taking until compensation was made, because the United States cannot, in the absence of a statute to that end, be subjected to the payment of interest. The Court, however, held, in an opinion by Mr. Justice Day, that the allowance of just compensation involved the giving of interest.

Seaboard Air Line Ry. Co. v. United States, 261 U. S. 299, is to a like effect. It arose under a war statute. The Court said by Mr. Justice Butler (p. 304):

> "Section 10 of the Lever Act authorizes the taking of property for the public use on payment of just compensation. There is no provision in respect of interest. Just compensation is provided for by the Constitution and the right to it cannot be taken away by statute. Its ascertainment is a judicial function. *Monongahela Navigation Co. v. United States,* 148 U. S. 312, 327.
>
> "The compensation to which the owner is entitled is the full and perfect equivalent of the property taken. *Monongahela Navigation Co. v. United States,* 148 U. S. 312, 327. It rests on equitable principles and it means substantially that the owner shall be put in as good position pecuniarily as he would have been if his property had not been taken. *United States v. Rogers* (C.C.A., Eighth Circuit), 257 Fed. 397, 400. He is entitled to the damages inflicted by the taking. *Northern Pacific Ry. Co. v.*

North American Telegraph Co. (C.C.A., Eighth Circuit), 230 Fed. 347, 352, and cases there cited."

If a licensor is to be put in as good condition pecuniarily as he would have been in if his property had not been taken, he must have the full royalties to which his contract entitles him.

Omnia Commercial Co. v. United States, 261 U. S. 502, has been relied on by the Government as supporting the Royalty Adjustment Act and the orders made thereunder. In that case the appellant, by contract, acquired the right to purchase steel plate from a steel company at a price under the market. The Government requisitioned the company's entire production of steel plate. Appellant brought an action in the Court of Claims, alleging that the performance of the contract had been rendered unlawful and impossible and the effect was to take for the public use appellant's right to the steel plate expected to be produced by the steel company. To this petition a demurrer was sustained and the judgment was affirmed by this Court. The Court in its opinion clearly differentiated the case from the case at bar and the case of our client, where the Government has taken not the subject matter of the contract but the contract right to be paid therefor. What is taken here is not something whose taking prevents performance of a contract, but a right under the contract. The Court said by Mr. Justice Sutherland (pp. 510-511):

"If, under any power, a contract or other property is *taken* for public use, the Government is liable; but if injured or destroyed by lawful action, without a taking, the Government is not liable. What was here requisitioned was the future product of the Steel Company, and, since this product in the

absence of governmental interference would have been delivered in fulfillment of the contract, the contention seems to be that the contract was so far identified with it that the taking of the former, *ipso facto,* took the latter. This, however, is to confound the contract with its subject-matter. The essence of every executory contract is the obligation which the law imposes upon the parties to perform it. 'It (the contract) may be defined to be a transaction between two or more persons, in which each party comes under an obligation to the other, and each reciprocally acquires a right to whatever is promised by the other.' *Dartmouth College v. Woodward,* 4 Wheat. 629, 656. Plainly, here there was no acquisition of the obligation or the right to enforce it. If the Steel Company had failed to comply with the requisition, what would have been the remedy? Not enforcement of the contract but enforcement of the statute. If the Government had failed to pay for what it got what would have been the right of the Steel Company? Not to the price fixed by the contract but to the just compensation guaranteed by the Constitution.

"In exercising the power to requisition, the Government dealt only with the Steel Company, which company thereupon became liable to deliver its product to the Government, by virtue of the statute and in response to the order. As a result of this lawful governmental action the performance of the contract was rendered impossible. It was not appropriated but ended."

Brooks-Scanlon Corp. v. United States, 265 U. S. 106, in our opinion, squarely rules the question under

the just compensation clause in the case at bar. The Emergency Fleet Corporation served on a shipbuilder its order requisitioning all of the ships under construction in the builder's shipyard and the materials necessary for their completion. The order required the builder to complete the ships. It stated that compensation would be paid for "ships, materials and contracts requisitioned." The Government contended that it had not requisitioned the claimant's contract by which the shipbuilder had agreed to construct one of the ships requisitioned, but the Court held that this contract and the claimant's rights and interests thereunder were expropriated, quoting with approval the dissenting opinion of the Chief Justice in the Court of Claims (p. 121):

> "If the plaintiff had voluntarily assigned its contract with the builder to the Government, and the latter had expressly assumed the unfulfilled obligations and later received the completed vessel, it would not more effectively have acquired plaintiff's contract, its rights, and obligations than actually resulted from what was done in this case. The Government requisitioned the incomplete vessel with the purpose of requiring the completion in accordance with the existing contract; it did require the carrying out of that contract (with slight modification); it took plaintiff's right to have the vessel; it received the vessel and appropriated plaintiff's partial payments thereon to its own use and benefit."

As to the just compensation, the Court, speaking by Mr. Justice Butler, said (pp. 123-124, 125-126):

> "It is the sum which, considering all the circumstances—uncertainties of the war and the rest—probably could have been obtained for an assign-

ment of the contract and claimant's rights thereunder; that is, the sum that would in all probability result from fair negotiations between an owner who is willing to sell and a purchaser who desires to buy.

* * * * * * *

"* * * Determination of just compensation is to be based on the fact that claimant's contract and its rights and interest thereunder were expropriated, and that it is entitled to have their value at the time of the taking. The value of such ships at the time of requisition, and the then probable value at the time fixed for delivery, the contract price, the payments made and to be made, the time to elapse before completion and delivery, the possibility that by reason of the Government's action in control of materials, etc., the contractor might not be able to complete the ship at the date fixed for performance, the loss of use of money to be sustained, the amount of other expenditures to be made between the time of requisition and delivery, together with other pertinent facts, are to be taken into account and given proper weight to determine the amount claimant lost by the taking (*Minnesota Rate Cases, supra,* 451; *United States v. Chandler-Dunbar Co.,* 229 U. S. 53, 76; *Boston Chamber of Commerce v. Boston,* 217 U. S. 189, 195; *Monongahela Navigation Co. v. United States, supra,* 343), that is, the sum which will put it in as good a position pecuniarily as it would have been in if its property had not been taken. *United States v. New River Collieries Co., supra,* 343; *Seaboard Air Line Ry. Co. v. United States, supra,* 305."

In *Russian Volunteer Fleet v. United States*, 282 U. S. 481, the Court, in an opinion by Mr. Chief Justice Hughes, made a similar ruling in another suit to recover just compensation for the requisitioning by the Emergency Fleet Corporation of contracts for the construction of two vessels.

Jacobs v. United States, 290 U. S. 13, is another case in which the judgment of the court below was reversed for failure to allow interest in a suit under the Tucker Act. The Court said, in an opinion by Mr. Chief Justice Hughes (pp. 16-17):

> "The amount recoverable was just compensation, not inadequate compensation. The concept of just compensation is comprehensive and includes all elements, 'and no specific command to include interest is necessary when interest or its equivalent is a part of such compensation.' The owner is not limited to the value of the property at the time of the taking; 'he is entitled to such addition as will produce the full equivalent of that value paid contemporaneously with the taking.' Interest at a proper rate 'is a good measure by which to ascertain the amount so to be added.' *Seaboard Air Line R. Co. v. United States*, 261 U. S. 299, 306. That suit was brought by the owner under § 10 of the Lever Act, which, in authorizing the President to requisition property for public use and to pay just compensation, said nothing as to interest. But the Court held that the right to just compensation could not be taken away by statute or be qualified by the omission of a provision for interest where such an allowance was appropriate in order to make the compensation adequate."

In *United States v. Miller*, 317 U. S. 369, the Court, in a unanimous opinion by Mr. Justice Roberts, summed up the effect of the cases as follows (pp. 373-374):

> "The Fifth Amendment of the Constitution provides that private property shall not be taken for public use without just compensation. Such compensation means the full and perfect equivalent in money of the property taken. The owner is to be put in as good position pecuniarily as he would have occupied if his property had not been taken.
>
> "It is conceivable that an owner's indemnity should be measured in various ways depending upon the circumstances of each case and that no general formula should be used for the purpose. In an effort, however, to find some practical standard, the courts early adopted, and have retained, the concept of market value. The owner has been said to be entitled to the 'value,' the 'market value,' and the 'fair market value' of what is taken. The term 'fair' hardly adds anything to the phrase 'market value,' which denotes what 'it fairly may be believed that a purchaser in fair market conditions would have given,' or, more concisely, 'market value fairly determined.'"

The latest case on the subject of just compensation is *United States v. General Motors Corp.*, 65 S. Ct. 357, in which the Court said by Mr. Justice Roberts (pp. 359-360):

> "The correctness of the decision of the court below depends upon the scope and meaning of the constitutional provision: 'nor shall private property be taken for public use, without just compensation,' which conditions the otherwise unrestrained power

of the sovereign to expropriate, without compensation, whatever it needs.

"The critical terms are 'property,' 'taken' and 'just compensation.' It is conceivable that the first was used in its vulgar and untechnical sense of the physical thing with respect to which the citizen exercises rights recognized by law. On the other hand, it may have been employed in a more accurate sense to denote the group of rights inhering in the citizen's relation to the physical thing, as the right to possess, use and dispose of it. In point of fact, the construction given the phrase has been the latter. *When the sovereign exercises the power of eminent domain it substitutes itself in relation to the physical thing in question in place of him who formerly bore the relation to that thing, which we denominate ownership.* In other words, it deals with what lawyers term the individual's 'interest' in the thing in question. That interest may comprise the group of rights for which the shorthand term is 'a fee simple' or it may be the interest known as an 'estate or tenancy for years,' as in the present instance. *The constitutional provision is addressed to every sort of interest the citizen may possess.*

"In its primary meaning, the term 'taken' would seem to signify something more than destruction, for it might well be claimed that one does not take what he destroys. But the construction of the phrase has not been so narrow. The courts have held that *the deprivation of the former owner* rather than the accretion of a right or interest to the sovereign constitutes the taking. Governmental action short of acquistion of title or occupancy has been held, if its effects are so complete as *to deprive the*

owner of all or most of his interest in the subject matter, to amount to a taking.

"But it is to be observed that whether the sovereign substitutes itself as occupant in place of the former owner, or destroys all his existing rights in the subject matter, the Fifth Amendment concerns itself solely with the 'property,' i.e., with the owner's relation as such to the physical thing and not with other collateral interests which may be incident to his ownership.

"In the light of these principles it has been held that the compensation to be paid is the value of the interest taken. Only in the sense that he is to receive such value is it true that the owner must be put in as good position pecuniarily as if his property had not been taken. In the ordinary case, for want of a better standard, market value, so-called, is the criterion of that value. In some cases this criterion cannot be used either because the interest condemned has no market value or because, in the circumstances, market value furnishes an inappropriate measure of actual value." (Italics ours.)

No dissent from the propositions so laid down is expressed in the concurring opinion of Mr. Justice Douglas (p. 362). That opinion points out that the United States was occupying a part of leased premises and paying less therefor by the square foot than the lessee was bound to pay to the landlord. If just compensation requires that the lessee be recompensed to the extent of the increase of his expense, we submit that it requires also that the person whose contract right is taken be recompensed to the extent of the reduction of

his income. Expense and income are commensurable items.

If "every sort of interest the citizen may possess" is protected by the constitutional provision, it is quite clear that the interest of a licensor in his contract right to royalties is so protected. Governmental action depriving him of all or most of this interest requires that compensation be paid, and *a fortiori*, if the Government takes *title* to a part or all of this interest, it must pay therefor. The market value of the contract right is what must be paid; and the Royalty Adjustment Act is unconstitutional because its purpose and effect is to give half a loaf or none instead of the monetary value of the contract right which it takes for the benefit of the United States.

The cases from which we have quoted form only a part of a large body of authority to a like effect. See, *e. g., United States v. Chandler-Dunbar Co.*, 229 U. S. 53; *United States v. New River Collieries Co.*, 262 U. S. 341; *Davis v. Newton Coal Co.*, 267 U. S. 292; *Liggett & Myers Tobacco Co. v. United States*, 274 U. S. 215; *Phelps v. United States*, 274 U. S. 341; *Richmond Screw Anchor Co. v. United States*, 275 U. S. 331; *Waite v. United States*, 282 U. S. 508; *Olson v. United States*, 292 U. S. 246; *Great Northern Ry. Co. v. Weeks*, 297 U. S. 135; *Baltimore & Ohio R. R. Co. v. United States*, 298 U. S. 349, 365; *United States v. Klamath & Moadoc Tribes*, 304 U. S. 119; concurring opinion of Justices Black, Douglas and Murphy in *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U. S. 575, at p. 603.

In view of the great body of authority requiring that the full and perfect equivalent in money of the

property taken for public use must be provided under the Fifth Amendment, so as to put the owner in as good position pecuniarily as he would have occupied if his property had not been taken, how can the Royalty Adjustment Act be justified?

The court below held the Act constitutional on the theory that (144 F. (2d) 714, at p. 719):

> "The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. Crozier v. Fried Krupp Aktiengesellschaft, 1911, 224 U. S. 290, 32 S. Ct. 488, 56 L. Ed. 771; Identification Devices v. United States, 1941, 74 App. D. C. 263, 121 F. 2d 895, certiorari denied 1941, 314 U. S. 615, 62 S. Ct. 63, 86 L. Ed. 495, 1942, 314 U. S. 587, 62 S. Ct. 477, 86 L. Ed. 474, rehearing denied 1941, 314 U. S. 710, 714, 62 S. Ct. 174, 357, 86 L. Ed. 566, 569, 1942, 315 U. S. 779, 62 S. Ct. 485, 86 L. Ed. 1187; Pierce v. Submarine Signal Co., D. C. Mass., 1939, 25 F. Supp. 862."

It is unnecessary to discuss each of the cases cited by the court below, since the two cases in the lower courts add nothing to the decision of this Court in *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U. S. 290. In that case the Court held that a patentee had no right to enjoin an officer of the United States from using devices employing the inventions covered by his letters patent, because the Act of June 25, 1910, 36 Stat. 851, 35 U.S.C. § 68, provided that "whenever an invention described in and covered by a patent of the United States 'shall hereafter be used by the United States without license of the owner thereof or lawful right to use the same, such

owner may recover reasonable compensation for such use by suit in the Court of Claims'" (p. 304). It is to be noted, however, that that Act provided for the recovery of "reasonable compensation" and, as amended by the Act of July 1, 1918, provides "for the recovery of his reasonable and entire compensation for such use and manufacture." How different is this language, calling for the recovery of reasonable and entire compensation, from that employed in the Royalty Adjustment Act, which, in lieu of the royalty contracted for, provides only for "fair and just compensation to the licensor * * *, taking into account the conditions of wartime production." By this Act the licensor is to be given the amount which might be just compensation if no contract right of his were taken, but the United States merely used an invention without the right to do so and Congress waived the immunity of the United States from suit for infringement. But when the contract right of a patentee to receive royalties *is* taken, he is entitled to the value of that right, under all the cases decided in the four decades which have elapsed since the decision in *Monongahela Navigation Co. v. United States.*

The court below (at 144 F. (2d) 716) refers to the fact that under the Act of 1910, as amended, when a patented invention is used or manufactured by or for the United States without license, the patent could be infringed "free from threat or injunction * * *, leaving the amount to be paid to the patentee to be adjusted by suit in the Court of Claims." But in the cases arising under the Royalty Adjustment Act the United States has not chosen to infringe the patents. It has not used the inventions at all. It has chosen to contract with

the licensees, and in so doing it has chosen to say that the payment for the use of the inventions by them shall be made in whole or in part to it and not wholly to the persons entitled to the payment under the license contracts. We are dealing here with the taking of contract rights.

Let it not be supposed that the distinction made in the preceding paragraph is one without a difference. An analogy derived from two supposititious statutes will make the difference clear. A lawyer, like a patentee, may have something of use to the United States in the emergency, not property, like the right of the patentee, but the ability to perform services. Congress could authorize him to be drafted to perform the services for the Army or the Navy. The drafting of the lawyer, like the appropriating of the use of the invention, would clearly be legal, and, moreover, the lawyer would not have to be compensated, for no *property* would be taken for public use. But suppose that the United States determines that the lawyer, by his services to his clients, for which he has contracts entitling him to compensation, is doing his part toward winning the war without being drafted, and Congress authorizes the head of a department or agency to determine what compensation would be fair and just for his services, taking into account wartime conditions, and to order that the excess of his contractual compensation over that so determined shall be paid to the United States. If the lawyer's contracts for such compensation were made in 1932, as in Coffman's case, or in 1938, as in the case at bar, the tax upon him would parallel the exactions under the Royalty Adjustment Act; and we submit that the taking of his compensation in excess of $50,000 per annum (or,

let us say, $10,000 per annum, since a lawyer's services are hardly likely to be valued so highly as an inventor's) would deprive him of property without due process of law and take private property without just compensation. It would be no argument to say that he might have been drafted to serve without compensation, because the just compensation clause *does not* provide compensation for services, but does provide compensation for property.

In the opinion of the court below a number of cases are cited which refer to the exercise of the war power, the commerce power, or other regulatory power of Congress over contracts, and the conclusion is stated (144 F. (2d) 719):

> "If individual contract rights may be interfered with in pursuance of regulatory power exercised on behalf of the general public it is even clearer that such rights are subordinate to the public interest when compensation is given the individual for such interference."

We do not imply that the learned judge supposes that the contract rights may be appropriated without just compensation. The argument, however, on behalf of the Government in the District Court in the Coffman case seemed to rely on these cases of regulation reducing the value of contract rights as if they justified without more the orders made under the Royalty Adjustment Act. This of course is incorrect, as is shown by one of the cases cited by the court below and also by the Government in its brief in the Coffman case: *Louisville and Nashville R. R. Co. v. Mottley*, 219 U. S. 467. In that case a railroad company, in consideration of a release from a claim for damages for injuries, had agreed to issue free

passes to the injured person annually during his life. The Court held that after the passage of the Interstate Commerce Act the agreement was unenforcible. In so holding, however, it clearly differentiated between an act regulating commerce and an act taking private property for public use. Mr. Justice Harlan, who delivered the opinion of the Court, said (p. 484):

> "It is not determinative of the present question that the commerce act as now construed will render the contract of no value for the purposes for which it was made. In *Knox v. Lee*, 12 Wall. 457, above cited, the court, referring to the Fifth Amendment, which forbids the taking of private property for public use without just compensation or due process of law, said: 'That provision has always been understood as referring only to a direct appropriation, and not to consequential injuries resulting from the exercise of lawful power. It has never been supposed to have any bearing upon or to inhibit laws that indirectly work harm and loss to individuals. A new tariff, an embargo, a draft, or a war, may inevitably bring upon individuals great losses; may, indeed, render valuable property almost valueless. They may destroy the worth of contracts.'"

The distinction between a taking by eminent domain and a rate reduction is brought out in the concurring opinion of Justices Black, Douglas and Murphy in *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U. S. 575, at p. 603; and the distinction between such a taking and the fixing of maximum rents is brought out in the opinion of the Court by Mr. Justice Douglas in *Bowles v. Willingham*, 321 U. S. 503, at p. 517:

"Moreover, there would be no constitutional objection if Congress as a war emergency measure had itself fixed the maximum rents in these areas. We are not dealing here with a situation which involves a 'taking' of property. *Wilson v. Brown, supra.* By § 4 (d) of the Act it is provided that 'nothing in this Act shall be construed to require any person to sell any commodity or to offer any accommodations for rent.' There is no requirement that the apartments in question be used for purposes which bring them under the Act. Of course, price control, the same as other forms of regulation, may reduce the value of the property regulated."

It is unnecessary, in view of the express provision in the Constitution for just compensation for the taking of private property, to argue that such compensation must be made for the taking of a contract right, even though the worth of the contract might have been destroyed by legislation not involving a taking without giving compensation. It would be easy, however, if it were necessary to justify the distinction which the framers of the Constitution made between legislation authorizing the taking of property and legislation merely regulating the use of property. The Government, as *parens patriae,* passing on the question whether the interest of the people calls for a regulation even at the expense of the invalidating of contract rights, is not subject to the temptation to which it would be subject if it could take for its own benefit contract rights without paying the full and perfect equivalent in money of the rights so taken. In the one case the Government is disinterested; in the other case it is an interested party.

Comment may be made on the fact that both the Act of 1910 and the Royalty Adjustment Act allow the United States the defenses that might be pleaded in an action for infringement or otherwise. By the Royalty Adjustment Order issued to the petitioner and its licensee the United States ordered that the latter pay no royalties to the petitioner. Obviously the United States proposes to dispute the validity of the patent if the licensor sues for compensation in the Court of Claims. Such a defense is appropriate in case the Government or a contractor for it uses an invention without license which it claims to be unpatentable. Such a defense is inappropriate when the United States takes, as in the case at bar, the contract right of the licensor to receive royalties. A licensee may not dispute the validity of the patent in a suit for royalties. *Walker on Patents,* Deller's ed., vol. 2, § 383; *Kinsman v. Parkhurst,* 18 How. 289; *Eureka Co. v. Bailey Co.,* 11 Wall. 488; *United States v. Harvey Steel Co.,* 196 U. S. 310. To award just compensation for the taking of a contract right to royalties the United States must pay the sum which "probably could have been obtained for an assignment of the contract" (*Brooks-Scanlon Corp. v. United States,* at 265 U. S. 123-124), and parties negotiating for such an assignment, of course, would take into account the estoppel of the licensee from disputing the validity of the patent.

Richmond Screw Anchor Co. v. United States, 275 U. S. 331, was a suit brought under the Act of 1910, as amended in 1918, to recover from the United States for the use of a patented article unauthorized by the patent owner. The plaintiff was the assignee of the patent and the claims for infringement. The Court of Claims dis-

missed the petition for the reason that the assignment of the claims for infringement was void under the section of the Revised Statutes forbidding assignment of claims against the United States. This Court, holding that a decision that the statute avoided the assignment would raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment to the Constitution, reversed the judgment, saying by Mr. Chief Justice Taft (p. 345):

> "We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away his assignable claims against the contractor for the latter's infringement of his patent. The assignability of such claims was an important element in their value and a matter to be taken into account in providing for their just equivalent."

To this we may add that the fact that the claim of a patentee against his licensee is not subject to the defense of invalidity of the patent is an important element in its value and a matter to be taken into account in providing for its just equivalent. The Royalty Adjustment Act, in prohibiting its being taken into account, violates the just compensation clause of the Fifth Amendment.

Many Acts for the taking of private property for public use passed during the last war and during this war were cited by the Government in its brief in the District Court in the Coffman case. We have examined all of them. In none of them except the Royalty Adjustment Act is the compensation limited by requiring an executive officer or a court to give less than the full

and perfect equivalent in money of the property taken. Most of them call merely for the payment of "just compensation," recognizing that what is just compensation is a judicial, not a legislative, question. The provision for compensation in the general Act for requisitioning the use of military or naval equipment in this war is entirely different from that of the Royalty Adjustment Act. It is the Act of October 16, 1941, c. 445, Sec. 1, 55 Stat. 742, amended on March 27, 1942, June 30, 1943, and June 28, 1944, 50 U.S.C. § 721. It says that each determination of the amount of the fair and just compensation to be paid for any property requisitioned "shall be made as of the time it is requisitioned or returned, as the case may be, in accordance with the provision for just compensation in the fifth amendment to the Constitution of the United States." It provides for suit in the Court of Claims for an additional amount which, when added to the amount paid, the person entitled "considers to be fair and just compensation for such property." No limitation is placed on the amount recoverable in the Court of Claims. We submit that the limitations in the Royalty Adjustment Act show that the intent of Congress was to refuse to pay the value of the royalties taken; if payment of that value were allowed, the royalties contracted for would not be "adjusted" at all. This refusal of Congress is a denial of just compensation.

(B) THE ROYALTY ADJUSTMENT ACT AND THE ORDERS MADE THEREUNDER DEPRIVE PERSONS OF PROPERTY WITHOUT DUE PROCESS OF LAW.

We submit further that, even if the Royalty Adjustment Act provided just compensation, the taking of contract rights to receive royalties cannot be justified as an exercise of the power of eminent domain.

The power is defined by a learned writer on the subject as follows:

> "Eminent domain is the right or power of a sovereign State to appropriate private property to particular uses, for the purpose of promoting the general welfare. It embraces all cases where, by the authority of the State and for the public good, the property of the individual is taken without his consent, for the purpose of being devoted to some particular use, either by the State itself or by a corporation, public or private, or a private citizen." (*Lewis, Eminent Domain,* 3d ed., § 1.)

The rights of the licensors to receive royalties specified in the license agreements are taken by the War Department and Navy Department orders not "for the purpose of being devoted to some particular use" but only for the purpose of improving the financial condition of the United States. The orders call for the payment to the Treasurer of the United States, in the case at bar of all royalties, and in Coffman's case of all royalties in excess of $50,000 in each calendar year, in respect of articles sold for or to the two Departments.

We submit that money or the right to receive money is not such property as may be lawfully taken by emi-

nent domain. One of the greatest American jurists notes the distinction for this purpose between money and property which is to be used by the Government in kind:

> "Every species of property which the public needs may require and which government cannot lawfully appropriate under any other right, is subject to be seized and appropriated under the right of eminent domain. Lands for the public ways; timber, stone, and gravel with which to make or improve the public ways; buildings standing in the way of contemplated improvements, or which for any other reason it becomes necessary to take, remove, or destroy for the public good; streams of water; corporate franchises; and generally, it may be said, legal and equitable rights of every description are liable to be thus appropriated. From this statement, however, must be excepted money, or that which in ordinary use passes as such, and which the government may reach by taxation, and also rights in action, which can only be available when made to produce money; neither of which can it be needful to take under this power." (*Cooley's Constitutional Limitations,* 8th ed., vol. 2, 1113.)

See also the footnote to this paragraph (p. 1118), which reads in part as follows:

> "Property of individuals cannot be appropriated by the State under this power for the mere purpose of adding to the revenues of the State. Thus it has been held in Ohio, that in appropriating the water of streams for the purposes of a canal, more could not be taken than was needed for that object with a view to raising a revenue by selling or leasing it. * * *

"Taking money under the right of eminent domain, when it must be compensated in money afterwards, could be nothing more or less than a forced loan, only to be justified as a last resort in a time of extreme peril, where neither the credit of the government nor the power of taxation could be made available. It is impossible to lay down rules for such a case, except such as the law of overruling necessity, which for the time being sets aside all the rules and protections of private right, shall then prescribe."

It will hardly be contended by the Government in this case that the taking of the money due to the petitioner is "justified as a last resort in a time of extreme peril, where neither the credit of the government nor the power of taxation could be made available."

A careful study of all the cases on eminent domain disclosed by our research indicates that the taking of the right to receive money under the Royalty Adjustment Act has no precedent in our history. A chronological review of the opinions in which the matter has been discussed may be not without interest.

In *Buckingham v. Smith,* 10 Ohio 288 (1840), where canal commissioners had constructed a feeder to a canal, to be used for the purpose of taking more water out of a river than was required for canal navigation, the court said by Woodward, J. (pp. 296-297):

"The State, notwithstanding the sovereignty of her character, can take only sufficient water, from *private streams,* for the purposes of the canal. So far the law authorizes the commissioners to invade private right, as to take what may be necessary for canal navigation, and to this extent, authority is

conferred by the constitution, provided, a compensation be paid in money to the owner. The principle is founded on the superior claims of a whole community, over an individual citizen; but then, in those cases, only, where private property is wanted for *public use*, or demanded by the *public welfare*. We know of no instances in which it has, or can be taken, even by State authority, for the mere purpose of raising a revenue by resale, or otherwise; and the exercise of such a power would be utterly destructive of individual right, and break down all the distinctions between *meum et tuum*, and annihilate them forever, at the pleasure of the State."

In *People v. Mayor, &c. of Brooklyn*, 4 N. Y. 419 (1851), the court laid down what has since been regarded as a classic statement of the distinction between taxation and the exercise of eminent domain, saying by Ruggles, J. (pp. 424-425):

"Taxation exacts money, or services, from individuals, as and for their respective shares of contribution to any public burthen.

"Private property taken for public use by right of eminent domain, is taken not as the owner's share of contribution to a public burthen, but as so much beyond his share.

"Special compensation is therefore to be made in the latter case, because the government is a debtor for the property so taken; but not in the former, because the payment of taxes is a duty and creates no obligation to repay, otherwise than in the proper application of the tax.

"Taxation operates upon a community or upon a class of persons in a community and by some rule of apportionment.

"The exercise of the right of eminent domain operates upon an individual, and without reference to the amount, or value exacted from any other individual, or class of individuals.

"Keeping these distinctions in mind, it will never be difficult to determine which of the two powers is exerted in any given case.

"It may be proper here although not strictly necessary, to express the opinion that money can not be exacted by the government by right of eminent domain, excepting, perhaps, for the direct use of the state at large, and when the state at large is to make the compensation.

"The exigencies of a state government can seldom require the taking of money by virtue of this power even in time of war, and never in time of peace. The framers of the constitution could not have intended to delegate to municipal corporations the right of taking money under this power, because it is entirely unnecessary. Money can always be had by taxation; lands can not; and therefore lands may be taken by right of eminent domain, but money may not. The 7th section of article 1 of the constitution, confirms this construction of the power. It directs the compensation for private property so taken, to be ascertained by a jury, or by commissioners. This is an appropriate mode when lands or goods are taken, because their value is uncertain; but not when money is taken, because its value is already fixed.

"The validity of the assessment in question, therefore, can not be maintained as an exercise of the power of eminent domain; and it can not be

maintained at all unless it be a legitimate mode of taxation."

This case was cited with approval in the opinion of this Court by Mr. Chief Justice Hughes in *Houck v. Little River Drainage District*, 239 U. S. 254, at p. 265.

In *Burnett v. Mayor, etc., of the City of Sacramento*, 12 Cal. 76 (1859), the court said by Mr. Justice Field (p. 83):

"Money is not that species of property which the sovereign authority can authorize to be taken in the exercise of its right of eminent domain. That right can be exercised only with reference to other property than money, for the property taken is to be the subject of compensation in money itself, and the general doctrine of the authorities of the present day is, that the compensation must be either made, or a fund provided for it in advance.

"The assessment, therefore, must rest for its validity upon its being a legitimate exercise of the taxing power."

In *Emery v. San Francisco Gas Co.*, 28 Cal. 345 (1865), the court said by Sawyer, J. (p. 350):

"In a certain sense money is property. But it might just as well be said, that money taken by general taxation for the ordinary purposes of State revenue is property within the meaning of the Constitution, and cannot be taken without compensation. The theory of all taxation is, doubtless, in a general sense, that there is compensation for the taxes taken in the protection and security to life, liberty and property afforded by the Government supported by the money raised. But this, manifestly, is not the compensation to be made for property taken for

public use, within the meaning of the terms as used in the section of the Constitution cited. The property referred to in the Constitution for which special compensation must be made, is something other than money, as where land is taken to be used as a street, and the like, and the compensation referred to, doubtless, means a compensation in money, the only medium by which special compensation can be accurately measured and adjusted; and to make such compensation in the case of assessments to raise money for the purpose of paying for grading streets, would be to take the money from the property holder with one hand and return it with the other; and this would leave nothing for the purposes required."

In *Hammett v. Philadelphia,* 65 Pa. 146 (1870), Sharswood, J., after referring to the opinion of Mr. Justice Field that the right of eminent domain can be exercised only with reference to other property than money, said (pp. 152-153):

"I am not able, and do not feel disposed to enter the lists upon such a question, but it does seem to me that there may be occasions in which money may be taken by the state in the exercise of its transcendental right of eminent domain. Such would be the case of a pressing and immediate necessity, as in the event of invasion by a public enemy, or some great calamity, as famine or pestilence, contributions could be levied on banks, corporations or individuals. The obligation of compensation is not immediate. It is required only that provision should be made for compensation in the future. Judge Ruggles confines the right to exact money by virtue

of the eminent domain, to the case where it is for the use of the state at large in time of war: The People *ex rel.* Griffin v. Brooklyn, 4 Comst. 419. I cannot see that there is any such necessary limitation. The public necessity which gives rise to it, prevents its being restrained by any limitations as to either subject or occasion. In truth it matters not whether an assessment upon an individual or a class of individuals for a general, and not a mere local purpose, be regarded as an act of confiscation —a judicial sentence or rescript, or a taking of private property for public use without compensation—in any aspect, it transcends the power of the legislature, and is void. I regard it as a forced contribution. If the sovereign breaks open the strong-box of an individual or corporation and takes out money, or, if not being paid on demand, he seizes and sells the lands or goods of the subject, it looks to me very much like a direct taking of private property for public use. It certainly cannot alter the case to call it taxation."

In *Cary Library v. Bliss,* 151 Mass. 364 (1890), the court, holding that it was unconstitutional to take $1,500 deposited in a savings bank and two promissory notes of a town amounting to $11,000 under the right of eminent domain, said by Knowlton, J. (p. 379):

"There may be a great public exigency, as in time of war, which will authorize the government to take money in the exercise of this right. *Mitchell v. Harmony,* 13 How. 115, 128. *Williams v. Wilkerman,* 44 Misso. 484. *Yost v. Stout,* 4 Cold. 205. But it cannot truly be said that the taking of money by a private corporation, created to administer a public

charity, is a taking of property for public use. The money taken must be paid for in money. It cannot be taken unless it is paid for in advance, or sufficient provision is made for immediate payment, which provision must be in money or in that which is deemed its equivalent. There can be no necessity for such a taking. In its nature it is not a taking for public use. There can be a taking for a public use under this power only when, in the nature of the case, there is, or may be, a public necessity for the taking."

The three cases cited in the Massachusetts court's opinion as possibly authorizing the Government to take money in time of war all dealt with property other than money. They are illustrations of the principle expressed by Chief Justice Taney in delivering the opinion of the Court in one of them, *Mitchell v. Harmony*, 13 How. 115, at p. 134:

"There are, without doubt, occasions in which private property may lawfully be taken possession of or destroyed to prevent it from falling into the hands of the public enemy; and also where a military officer, charged with a particular duty, may impress private property into the public service or take it for public use. Unquestionably, in such cases, the government is bound to make full compensation to the owner; but the officer is not a trespasser.

"But we are clearly of opinion, that in all of these cases the danger must be immediate and impending; or the necessity urgent for the public service, such as will not admit of delay, and where the action of the civil authority would be too late

in providing the means which the occasion calls for. It is impossible to define the particular circumstances of danger or necessity in which this power may be lawfully exercised. Every case must depend on its own circumstances. It is the emergency that gives the right, and the emergency must be shown to exist before the taking can be justified."

We respectfully submit that the emergency under which the taking of money, or of a right to receive money, by eminent domain can be justified does not exist under the circumstances of the case at bar. We are not dealing with a case where, to use Judge Cooley's phrase, the right of eminent domain could be exercised to compel "a forced loan, only to be justified as a last resort in time of extreme peril, where neither the credit of the government nor the power of taxation could be made available." We are not dealing with a situation where, to use Chief Justice Taney's phrase, "a military officer, charged with a particular duty, may impress private property into the public service or take it for public use." The money is not "taken possession of * * * to prevent it from falling into the hands of the public enemy." No invasion of Delaware, New Jersey or Pennsylvania has occurred. The Congress has power to lay and collect taxes to provide for the common defense, to borrow money on the credit of the United States, and to coin money and regulate the value thereof. It is by the exercise of these powers, not by the exercise of the power of eminent domain, that *money* is to be obtained by Congress in all normal circumstances, even in time of war. We may lay to one side the question as to what taking of money may be justified in the course of military operations.

To sum up: Property which is needed for public *use* may be taken in kind by the exercise of the power of eminent domain, and in no other way. Money, or the right to receive money, which is needed not for *use*, but for *revenue*, may be taken by the exercise of the power of taxation, and in no other way. A taking of one man's money by the power of eminent domain deprives him of property without due process of law, just as a taking of another man's property not for use, but to produce revenue by selling it, would deprive him of property without due process of law. We submit, therefore, that the taking of the petitioner's right to receive money and of Coffman's right to receive money in excess of $50,000 in a calendar year, if they can be justified at all, can be justified only as taxes.

> "Taxes are defined to be burdens or charges imposed by the legislative power upon persons or property, to raise money for public purposes." (*Cooley's Constitutional Limitations*, 8th ed., vol. 2, 986.)
>
> "The revenues of a State are a portion that each subject gives of his property in order to secure, or to have, the agreeable enjoyment of the remainder." (*Montesquieu, Spirit of the Laws*, bk. 12, c. 30.)

Is the exaction of money or the right of the licensor to receive money justifiable as a tax? We submit that it is not.

In the first place, there is nothing to indicate that Congress intended to impose a tax or do anything else than take property for public use. Art. I, Sec. 7, of the Constitution provides:

> "All Bills for raising Revenue shall originate in the House of Representatives; but the Senate may propose or concur with Amendments as on other Bills."

The Royalty Adjustment Act did not originate in the House of Representatives but in the Senate. Senate Bill 2794, 77th Congress, 2nd Session, was passed by the Senate (Congressional Record, vol. 88, p. 8215), amended and passed by the House (ibid., p. 8546); the Senate concurred in the House amendments (ibid., p. 8662), and the President signed the Bill on October 31, 1942 (ibid., p. 8703). This Bill is the Royalty Adjustment Act.

In the second place, if Congress did intend to impose a tax, we submit that the tax would be so arbitrary and capricious as to amount to confiscation and to deprive the persons subject to it of property without due process of law.

This Court said by Mr. Justice Harlan in *Henderson Bridge Co. v. Henderson City,* 173 U. S. 592, at p. 614:

> "It is conceivable that taxation may be of such a nature and so burdensome as properly to be characterized a taking of private property for public use without just compensation."

What is conceivable in one generation is likely to occur in the next, and in recent years the Court has held invalid under the due process clause a number of taxes imposed by Congress as being so arbitrary and capricious as to amount to confiscation. *Nichols v. Coolidge,* 274 U. S. 531; *Blodgett v. Holden,* 275 U. S. 142; *Untermyer v. Anderson,* 276 U. S. 440; *Heiner v. Donnan,* 285 U. S. 312. See also *Chicago, etc., R. R. Co. v. Chicago,* 166 U. S. 226, 241; *Barclay & Co. v. Edwards,* 267 U. S.

442, 450; *Helvering v. City Bank Farmers Trust Co.*, 296 U. S. 85, 92; and *cf. Hoeper v. Tax Commission of Wisconsin*, 284 U. S. 206. As Mr. Justice Roberts said in *Helvering v. City Bank Farmers Trust Co., ubi supra*:

> "There are, however, limits to the power of Congress to create a fictitious status under the guise of supposed necessity. Thus it has been held that an act creating a conclusive presumption that a gift made within two years prior to death was made by the donor in contemplation of death, and requiring the value of the gift to be included in computing the estate of the decedent subject to transfer tax, is so grossly unreasonable as to violate the due process clause of the Fifth Amendment. In the same category falls a statute seeking to tax the separate income of a wife as income of her husband."

If an act creating a conclusive presumption that a gift made within two years prior to death was made in contemplation of death and a statute seeking to tax the separate income of a wife as income of her husband are so grossly unreasonable as to violate the due process clause, what shall be said of the exaction made by the Royalty Adjustment Act? Take Coffman's case as an illustration. The tax would be imposed, not upon the receipts of all persons in excess of $50,000 in a year, nor upon all receipts of royalties from inventions manufactured, used, sold or otherwise disposed of for the United States in excess of $50,000 in a year, but upon a particular inventor in whose case, in the opinion of the head of a department of the Government, that amount is determined to be fair and just, taking into account the conditions of wartime production, though a contract

made many years before entitles him to much in excess of that amount. This contract is assumed to be valid and the excess over $50,000 is to be paid over to the Treasurer of the United States. Could a more arbitrary and capricious tax be devised? It is true that a limited right to judicial relief from the determination of the taxing authority is accorded to the taxpayer. But no matter what relief may be obtained by him, he must leave a "tax" in the Treasury, or the Royalty Adjustment Act will be wholly frustrated. We maintain that the selection of the subject of taxation is so arbitrary and capricious that the purpose of confiscation of his contract right is obvious. Congress may, short of arbitrariness, classify persons and things for the purpose of taxation, but here the classification has run wild.

It might be supposed that one whose invention is contributing to the winning of the war would be a favorite of the taxing power. There have doubtless been times when a subsidy would be given to such a man by the sovereign. A great statesman who was at the same time a great inventor, Benjamin Franklin, is reported to have said, "History teaches us that republics are ungrateful." When ingratitude has reached the stage of confiscation, it is time for the judicial power to interfere with the legislative and the executive; and we submit that a case for such interference is here presented. Otherwise, we see no possible bar to the selection of any class or person in the community and the imposition of a confiscatory tax upon them or him in relief of the tax burdens of the community as a whole.

Take, for example, Coffman's invention, which is of special use in wartime. In less than three years the original patent will expire. If the Government may di-

rect that royalties due to him under his exclusive license contract for the past two years and the remaining three years shall be paid instead to the Treasurer of the United States, is not the constitutional provision for just compensation disregarded in his case? If it may be disregarded in his case, why should it be regarded in the requisitioning of military or naval equipment? If the rights of licensors may be taken for the benefit of the United States, why not the rights of licensees? Why should not every person furnishing anything of use to the United States be similarly penalized with inventors? If the court sustains the Royalty Adjustment Act, then Congress may delegate to the head of any department or agency or any of his subordinates the power to call in question the propriety of amounts of money to be paid to anyone, directly or indirectly at the expense of the United States, and to substitute the United States as the beneficiary of his contract *gratis* by "taking into account the conditions of wartime production" in the teeth of contractual provisions.

Conclusion.

We maintain, therefore, that the Royalty Adjustment Act and the order made thereunder with regard to the royalties payable by the respondent to the petitioner are unconstitutional, in that they take private property without just compensation and deprive the petitioner of property without due process of law, because

(a) if they constituted an exercise of the power of eminent domain, they would be invalid for failure to secure to the petitioner just compensation for what is taken from it;

(b) they cannot be justified as an exercise of the power of eminent domain, since that power cannot be used to raise revenue but only to take property which is needed for use; and

(c) they cannot be justified as an exercise of the taxing power, since the Act did not originate in the House of Representatives, and if it imposed a tax, it would be arbitrary and capricious.

We submit further that the judgment of the court below should be reversed and the case should be remanded to that court with direction to proceed to hear the petitioner's appeal on its merits, in view of the unconstitutionality of the Royalty Adjustment Act and the order made thereunder.

Respectfully submitted,

JAMES D. CARPENTER, JR.,
75 Montgomery Street,
Jersey City 2, N. J.,

JOHN G. BUCHANAN,
1025 Union Trust Bldg.,
Pittsburgh 19, Pa.,
Amici Curiae.